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SENSITIVE

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TAGS: [ECON](#) [EFIN](#) [PGOV](#) [PREL](#) [AJ](#)  
SUBJECT: AZERBAIJAN: SOCIAL PROTECTION FUND CHAIRMAN  
OUTLINES PLANS FOR REFORM

SENSITIVE BUT UNCLASSIFIED - NOT FOR INTERNET DISTRIBUTION -  
HANDLE ACCORDINGLY

11. (SBU) SUMMARY. Chairman of the Social Protection Fund Salim Musilmov discussed with Charge May 12 the Government of Azerbaijan's efforts to reform and modernize its pension system. The Social Protection Fund offers full pension benefits to men with 25 years of employment service at age 62 and to women with 20 years of employment service at age 57. Musilmov explained that the current pension system will eventually evolve into individual accounts for retirees. Charge noted that the pension system should serve Azerbaijan's citizens while not stifling private sector investment. The American Chamber of Commerce has expressed concern that the 25 percent tax on workers will deter investment. Musilmov will visit Washington September 10 to give a presentation on Azerbaijan's pension system to the World Bank. He noted that Azerbaijan has been selected as a best-practices example for pension reform. Musilmov noted that when he is in Washington he would be interested in making official calls, including on the Social Security Administration. END SUMMARY.

12. (SBU) On May 12 Charge d'Affaires met with Salim Musilmov, Chairman of the Social Protection Fund, to discuss Azerbaijan's social security and insurance system. Musilmov told the Charge that Azerbaijan's Social Protection Fund system was relatively new and was modeled on Poland's pension system. The Social Protection Fund is a ministerial-level agency and a branch of the Cabinet of Ministers. Musilmov stated that there are currently 1.18 million people receiving social security benefits, including retired individuals and certain special category individuals (i.e. handicapped citizens). He briefed the Charge on how the Social Defense Fund changed from the previous Soviet-era pension design into a modern and more flexible system. Musilmov noted the Social Protection Fund system will eventually develop into a system based on individual accounts.

13. (SBU) Azerbaijan currently has a single-tier public pension system that provides a full pension to men with 25 years of employment service at age 62 and to women with 20 years of employment service at age 57. Since the beginning of 2006, the GOAJ has been registering workers and employers for the new pension system that will be introduced in early 12007. Under the current pension system, employees contribute two percent of earnings and employers contribute 27 percent of payroll for non-agricultural workers. Musilmov told the Charge that the amount that employees contribute will increase to eight percent while the amount employers contribute from payroll will decrease to 14 percent -- putting more of the tax burden on employees.

¶4. (SBU) In 2005, the Social Defense Fund paid out USD 573 million, with the average pensioner receiving only USD 35 per month. Musilmov lamented that the small monthly pension is insufficient to cover basic living expenses for most retired individuals. By 2008, the average base pension should increase to USD 60 per month. Musilmov said that the Social Defense Fund plans to index pensions to inflation, adjusting pensions annually. In 2006 the Social Protection Fund will receive USD 175 million from the national budget to cover its pension distribution expenditures. Musilmov explained that by 2015 the system should be self-financing as the economy grows and more workers pay into the system.

¶5. (SBU) Charge noted to Musilmov the important role the Social Protection Fund plays in caring for Azerbaijan's retired, ill and handicapped but also in enabling direct investment in the economy. Charge stressed that a social security system needed to balance national goals with economic incentives that increase the level of investment and business development by national and international companies. The American Chamber of Commerce in Azerbaijan has expressed concern that the current application of social security contributions to foreign employees and the additional cost of social insurance may make Azerbaijan less attractive for direct foreign investment. This concern is acute for companies operating outside of energy-related Production Sharing Agreements that limit corporate and exempt personal taxes and contributions owed to the Government of Azerbaijan.

¶6. (SBU) Musilmov told Charge that foreign workers (non-PSA expatriate direct hires) who are paying social security contributions to the Social Protection Fund will be able to access their retirement benefits even after they leave Azerbaijan. As Musilmov explained it, retired individuals residing outside of Azerbaijan will be able to present their

Azerbaijani retirement documentation to their national retirement administration and get their contributions transferred to their home country. Unfortunately, Musilmov did not clarify this point, only noting that Azerbaijan has signed several bilateral social security agreements with countries in Europe to enable this system, but not with the United States.

¶7. (SBU) Musilmov will visit Washington September 10 to give a presentation on Azerbaijan's pension system to the World Bank. He stated that Azerbaijan has been selected as a best-practices example for pension reform and that when he is in Washington he would be interested in making official calls, including on the Social Security Administration.

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